

Mendon Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2008

Independent Auditors' Report	i-ii	
Management's Discussion and Analysis	iii-viii	
Basic Financial Statements		
District-Wide Financial Statements:		
Statement of Net Assets.....	1	
Statement of Activities	2	
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	3	
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets.....	4	
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	
Fiduciary Fund – Statement of Fiduciary Net Assets	7	
Notes to Financial Statements.....	8-18	
Required Supplemental Information		
Budgetary Comparison Schedule - General Fund.....	19	
Other Supplemental Information		
Combining Balance Sheet – Nonmajor Governmental Funds.....	20	
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	21	
Schedule of Bonded Indebtedness.....	22-23	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		24-25
Schedule of Findings and Responses	26	



Independent Auditors' Report

Board of Education
Mendon Community Schools
Mendon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Mendon Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mendon Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Willis & Jurasek, P.C." in a cursive, flowing script.

Willis & Jurasek, P.C.

October 15, 2008

Mendon Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

This section of Mendon Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2008 and 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mendon Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Mendon Community Schools
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2008

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007.

Table I

	<u>2008</u>	<u>June 30,</u> <u>2007</u>
Assets		
Current and other assets	\$ 2,169,900	\$ 2,464,470
Capital assets – net of accumulated depreciation	16,079,310	16,572,033
Other noncurrent assets	<u>327,832</u>	<u>342,418</u>
Total assets	<u>18,577,042</u>	<u>19,378,921</u>
Liabilities		
Current liabilities	2,635,766	2,607,986
Long-term liabilities	<u>14,828,882</u>	<u>15,133,963</u>
Total liabilities	<u>17,464,648</u>	<u>17,741,949</u>
Net Assets		
Invested in property and equipment - net of related debt	1,035,048	1,359,172
Restricted for debt service	-	22,633
Unrestricted	<u>77,346</u>	<u>255,167</u>
Total net assets	<u>\$ 1,112,394</u>	<u>\$ 1,636,972</u>

Mendon Community Schools
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2008

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table II) of the School District's governmental activities is discussed below. The School District's net assets for the years ended June 30, 2008 and 2007 were \$1,112,394 and \$1,636,972, respectively. Capital assets, net of related debt totaling \$1,035,048 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$77,346 was unrestricted.

The \$77,346 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for fiscal years ended June 30, 2008 and 2007.

Table II

	<u>June 30,</u> <u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charges for services	\$ 207,255	\$ 205,867
Grants and categoricals	678,692	595,629
General revenue:		
Property taxes	1,663,411	1,627,477
State foundation allowance	4,340,115	4,281,364
Interest and other	<u>170,804</u>	<u>267,382</u>
Total revenue	<u>7,060,277</u>	<u>6,977,719</u>
Function/Program Expenses		
Instruction	3,528,370	3,377,109
Support services	2,246,585	2,023,903
Food services	269,671	245,588
Athletics	278,900	265,887
Other	32,429	29,436
Interest on long-term debt	652,397	522,554
Depreciation (unallocated)	<u>576,503</u>	<u>386,493</u>
Total expenses	<u>7,584,855</u>	<u>6,850,970</u>
Increase/Decrease in net assets	\$ <u>(524,578)</u>	\$ <u>126,749</u>

As reported in the statement of activities, the cost of all governmental activities for the years ended June 30, 2008 and 2007 was \$7,584,855 and \$6,850,970, respectfully. Certain activities were partially funded from those who benefited from the programs (\$207,255) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$678,692). We paid for the remaining "public benefit" portion of our governmental activities with \$1,663,411 in taxes, \$4,340,115 is State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an decrease in net assets of \$(524,578). Key reasons for the change in net assets were capitalizable expenditures, the repayment of bond principal, Board of Review Corrections, all day Kindergarten and increased insurance costs. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 6.

Mendon Community Schools
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2008

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$145,760, which is a decrease of \$384,989 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$244,436 to \$61,233. In the 2005 Capital Project Fund, the fund balance decreased from \$99,088 to \$ 496. The purpose of the 2005 Capital Project Fund is to continue to spend the fund balance to complete the voter approved purpose of erecting, furnishing and equipping additions to and remodeling, refurnishing and re-equipping the Mendon Middle/High School; remodeling and re-equipping or constructing and equipping a bus garage; partially remodeling, furnishing and equipping the Mendon Elementary School; acquiring and installing education technology; constructing and equipping improvements to the stadium and outdoor athletic facilities; acquiring buses; and developing and improving sites. Our Debt Service Fund reflected a fund balance decrease of \$40,069 and the fund balance ended the year at \$82,974. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

General Fund Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

As a matter of practice, Mendon Community Schools amends its budget 2 times during the school year. For fiscal year 2007-2008, the budget was amended in March and in June. The June 2008 budget was the final budget for the fiscal year.

Change from Original to Final Budget:

Total Revenues Original Budget	\$ 5,774,129	100.00%
Total Revenues Final Budget	\$ 5,783,410	100.16%
Increase in Budgeted revenues	\$ 9,281	0.002%

General Fund Expenditures:

Total Expenditures Original Budget	\$ 5,633,866	100.00%
Total Expenditures Final Budget	\$ 5,929,635	105.25%
Increase in Budgeted expenditures	\$ 295,769	0.05%

The increase in expenditures resulted from increased insurance costs, all day kindergarten, and refund of property taxes due to board of Review Corrections.

Mendon Community Schools
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2008

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the School District had \$21,150,015 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$83,780 from last year.

	<u>2008</u>	<u>2007</u>
Land	\$ 102,000	\$ 102,000
Buildings and improvements	17,457,193	17,373,413
Site improvements	905,603	905,603
Buses and other vehicles	583,792	583,792
Furniture and equipment	2,101,427	2,101,427
Construction in progress	<u>-</u>	<u>-</u>
Total capital assets	21,150,015	21,066,235
Less accumulated depreciation	<u>5,070,705</u>	<u>4,494,202</u>
Net capital assets	<u>\$ 16,079,310</u>	<u>\$ 16,572,036</u>

Debt

At the end of this year, the School District had long-term debt obligations totaling \$15,425,279 outstanding versus \$15,707,818 in the previous year – a change of 1.80 percent. The debt obligations consisted of the following:

	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 14,815,179	\$ 15,355,179
Installment purchase agreements	43,249	99,022
Unamortized deferred amount on refunding	(392,291)	(407,762)
Unamortized bond discount	(35,555)	(36,936)
School bond loan	942,008	644,864
Other	<u>52,689</u>	<u>53,451</u>
	<u>\$ 15,425,279</u>	<u>\$ 15,707,818</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Mendon Community Schools
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2008

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future;

Foundation allowance increase of approximately \$112 per student.
State aid membership based on a 75-25 percent blended count.
Enrollment decreased by 16 students compared to the prior year.
Planned reduction in expenditure, related to reorganization of staffing level.

Contacting the School District's Financial Management

This financial management report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 148 Kirby Road, Mendon, Michigan, 49072.

Mendon Community Schools
Statement of Net Assets
June 30, 2008

**Governmental
Activities**

Assets:

Cash and investments	\$ 1,116,689
Receivables:	
Accounts receivable	53,361
Due from other governmental units	936,825
Inventories	17,364
Prepaid expenses	45,661
Unamortized refunding bond issuance costs	327,832
Capital assets less accumulated depreciation of \$5,070,705	<u>16,079,310</u>
Total assets	<u>18,577,042</u>

Liabilities:

Accounts payable	11,865
State aid anticipation loan	1,500,000
Accrued payroll	232,216
Accrued interest	94,195
Other liabilities	201,093
Long-term liabilities:	
Bonds payable, due within one year	570,000
Other obligations, due within one year	26,397
Bonds payable, due in more than one year	14,776,193
Other obligations, due in more than one year	<u>52,689</u>
Total liabilities	<u>17,464,648</u>

Net Assets:

Investment in capital assets - net of related debt	1,035,048
Unrestricted	<u>77,346</u>
Total net assets	<u>\$ 1,112,394</u>

Mendon Community Schools
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expenses) Revenues and Change in Net Assets
Primary Government				
Governmental activities:				
Instruction	\$ 3,528,370	\$ 18,676	\$ 517,054	\$ (2,992,640)
Support services	2,246,585	-	30,600	(2,215,985)
Food service activities	269,671	138,555	131,038	(78)
Athletic activities	278,900	50,024	-	(228,876)
Other	32,429	-	-	(32,429)
Interest on long-term debt	652,397	-	-	(652,397)
Depreciation (unallocated)	576,503	-	-	(576,503)
Total governmental activities	<u>\$ 7,584,855</u>	<u>\$ 207,255</u>	<u>\$ 678,692</u>	<u>(6,698,908)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				821,794
Property taxes, levied for debt services				841,617
State aid not restricted to specific purposes				4,340,115
Interest and investment earnings				31,102
Other				<u>139,702</u>
Total general revenues				<u>6,174,330</u>
Change in Net Assets				(524,578)
Net Assets - Beginning of Year				<u>1,636,972</u>
Net Assets - End of Year				<u>\$ 1,112,394</u>

See Notes to Financial Statements.

Mendon Community Schools

Balance Sheet
Governmental Funds
June 30, 2008

	General	Debt Service Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash	\$ 1,031,811	\$ 82,974	\$ 1,904	\$ 1,116,689
Receivables:				
Accounts receivable	52,322	-	1,039	53,361
Due from other governmental units	857,859	-	-	857,859
Due from other funds	2,580	-	-	2,580
Inventories	-	-	17,364	17,364
Prepaid expenditures	45,661	-	-	45,661
Total assets	<u>\$ 1,990,233</u>	<u>\$ 82,974</u>	<u>\$ 20,307</u>	<u>\$ 2,093,514</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 11,865	\$ -	\$ -	\$ 11,865
State aid anticipation loan	1,500,000	-	-	1,500,000
Due to other funds	-	-	2,580	2,580
Salaries payable	232,216	-	-	232,216
Accrued expenditures	153,656	-	-	153,656
Deferred revenue	-	-	16,174	16,174
Other liabilities	31,263	-	-	31,263
Total liabilities	<u>1,929,000</u>	<u>-</u>	<u>18,754</u>	<u>1,947,754</u>
Fund Balances:				
Reserved for debt service	-	82,974	-	82,974
Reserved for construction	-	-	496	496
Reserved for inventory	-	-	1,190	1,190
Unreserved:undesignated	61,233	-	(133)	61,100
Total fund balances	<u>61,233</u>	<u>82,974</u>	<u>1,553</u>	<u>145,760</u>
Total liabilities and fund balances	<u>\$ 1,990,233</u>	<u>\$ 82,974</u>	<u>\$ 20,307</u>	<u>\$ 2,093,514</u>

Mendon Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets Of Governmental Activities on the Statement of Net Assets June 30, 2008

Total Fund Balances - Governmental Funds		\$ 145,760
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Value of revenue recorded in Statement of Activities and not reported in the funds.		78,966
Value of deferred charges for bond issuance costs	\$ 374,857	
Accumulated amortization	<u>(47,025)</u>	
		327,832
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 21,150,015	
Accumulated depreciation is	<u>(5,070,705)</u>	
		16,079,310
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Bonds payable		(14,815,179)
School bond loan		(942,008)
Installment purchase agreements		(43,249)
Deferred amount on refunding		392,291
Unamortized discount		35,555
Compensated balances		(52,689)
Accrued interest payable is not included as a liability in governmental activities.		<u>(94,195)</u>
Total Net Assets - Governmental Activities		<u>\$ 1,112,394</u>

Mendon Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
Local sources	\$ 913,045	\$ 842,253	\$ 189,303	\$ 1,944,601
State sources	4,645,823	-	14,965	4,660,788
Federal sources	162,980	-	116,073	279,053
Interdistrict and other	<u>96,869</u>	<u>-</u>	<u>-</u>	<u>96,869</u>
Total revenues	<u>5,818,717</u>	<u>842,253</u>	<u>320,341</u>	<u>6,981,311</u>
Expenditures:				
Instruction	3,528,370	-	-	3,528,370
Support services	2,247,347	-	-	2,247,347
Athletic activities	-	-	278,900	278,900
Food service activities	-	-	269,671	269,671
Debt service:				
Principal and interest payments	55,773	540,000	-	595,773
Interest and fiscal charges	2,294	603,238	-	605,532
Capital outlay	<u>2,390</u>	<u>-</u>	<u>99,233</u>	<u>101,623</u>
Total expenditures	<u>5,836,174</u>	<u>1,143,238</u>	<u>647,804</u>	<u>7,627,216</u>
Revenues Over (Under) Expenditures	<u>(17,457)</u>	<u>(300,985)</u>	<u>(327,463)</u>	<u>(645,905)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	226,979	226,979
School bond loan proceeds	-	260,916	-	260,916
Operating transfers out	<u>(226,979)</u>	<u>-</u>	<u>-</u>	<u>(226,979)</u>
Total other financing sources (uses)	<u>(226,979)</u>	<u>260,916</u>	<u>226,979</u>	<u>260,916</u>
Net Changes in Fund Balances	(244,436)	(40,069)	(100,484)	(384,989)
Fund Balances - Beginning of Year	<u>305,669</u>	<u>123,043</u>	<u>102,037</u>	<u>530,749</u>
Fund Balances - End of Year	<u>\$ 61,233</u>	<u>\$ 82,974</u>	<u>\$ 1,553</u>	<u>\$ 145,760</u>

See Notes to Financial Statements.

Mendon Community Schools

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Governmental Funds Year Ended June 30, 2008

Net Changes in Fund Balances - Total Governmental Funds **\$ (384,989)**

Amounts reported for governmental activities in the Statement
of Activities are different because:

Property tax refunds made by School were not received within recognized
period and will be refunded by the State and recorded as revenue when received. 78,966

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$ (576,503)	
Capital outlay	<u>83,780</u>	(492,723)

Accrued interest is recorded in the Statement of Activities when incurred;
it is not reported in governmental funds until paid. 6,215

Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

Debt issued:

School bond loan fund principal	(260,916)
School bond loan fund accrued interest	(36,228)

Repayments:

Amortization of bond issuance costs	(14,586)
Amortization of bond premium/discount	(1,381)
Amortization of deferred amount on refunding	(15,471)
To bond holders	540,000
Principal on installment purchase agreements	<u>55,773</u>

267,191

Decreases in compensated absences and voluntary severance benefits are reported
as expenditures when financial resources are used in the governmental funds.

762

Change in Net Assets of Governmental Activities **\$ (524,578)**

Mendon Community Schools
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

**Agency Fund -
Student
Activities**

Assets:

Cash and cash equivalents

\$ 89,826

Liabilities:

Due to student groups

\$ 89,826

Mendon Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Mendon Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mendon Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Debt Service Fund – Debt Service Fund is used to record tax, interest, and other revenue for payment of principal and other expenditures on particular bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund and the Food Services Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes.

2005 Capital Projects Fund - The 2005 Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

Mendon Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposits.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the taxes become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-homestead	18.0
Debt Funds	7.0

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

Mendon Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables (Continued) - The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Services Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repairs and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Site improvements	15 – 20 years
Buses and other vehicles	7 - 10 years
Furniture and equipment	5 - 20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations -- In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Mendon Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund are noted in the required supplemental information section.
4. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

Mendon Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments

At year-end, the School District's deposits and investments (see Note 1 for description) were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ <u>1,116,689</u>	\$ <u>89,826</u>	\$ <u>1,206,515</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$ 231,312
MILAF	974,613
Petty cash and cash on hand	<u>590</u>
Total	\$ <u>1,206,515</u>

Investment and Deposit Risk

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Investments under the interlocal agreement (MILAF) in the amount of \$974,613 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor's.

Custodial Credit Risk – Deposits -- Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$310,569 of the School's bank balance of \$410,569 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at June 30, 2008, consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$ 936,825
Other receivables	<u>53,361</u>
	\$ <u>990,186</u>

Note 5 – Interfund Transfers

During the current fiscal year, the General Fund transferred \$226,979 to the Athletics Fund. The purpose of the transfer was to subsidize the Athletics Fund activities for the year.

Mendon Community Schools
Notes to Financial Statements

Note 6 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated				
Land	\$ 102,000	\$ -	\$ -	\$ 102,000
Total assets not being depreciated	<u>102,000</u>	<u>-</u>	<u>-</u>	<u>102,000</u>
Capital assets being depreciated:				
Buildings and improvements	17,373,413	83,780	-	17,457,193
Site improvements	905,603	-	-	905,603
Buses and other vehicles	583,792	-	-	583,792
Furniture and equipment	<u>2,101,427</u>	<u>-</u>	<u>-</u>	<u>2,101,427</u>
Subtotal	<u>20,964,235</u>	<u>83,780</u>	<u>-</u>	<u>21,048,015</u>
Accumulated depreciation:				
Buildings and improvements	2,951,001	322,337	-	3,273,338
Site improvements	30,186	60,374	-	90,560
Buses and other vehicles	451,833	52,667	-	504,500
Furniture and equipment	<u>1,061,182</u>	<u>141,125</u>	<u>-</u>	<u>1,202,307</u>
Subtotal	<u>4,494,202</u>	<u>576,503</u>	<u>-</u>	<u>5,070,705</u>
Net capital assets being depreciated	<u>16,470,033</u>	<u>(492,723)</u>	<u>-</u>	<u>15,977,310</u>
Net capital assets	<u>\$16,572,033</u>	<u>\$ (492,723)</u>	<u>\$ -</u>	<u>\$16,079,310</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$576,503. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 7 – Note Payable

During the year, the District issued a State Aid anticipation note dated July 13, 2007 maturing July 13, 2008 in the amount of \$1,500,000 with an interest rate of 4.04%.

<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2008</u>
<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

Mendon Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$15,355,179	\$ -	\$ 540,000	\$14,815,179	\$570,000
Notes payable	99,022	-	55,773	43,249	43,249
School bond loan	644,864	297,144	-	942,008	-
Unamortized bond discount	(36,936)	-	(1,381)	(35,555)	(1,381)
Unamortized deferred amount on bond refunding	(407,762)	-	(15,471)	(392,291)	(15,471)
Compensated absences	<u>53,451</u>	<u>-</u>	<u>762</u>	<u>52,689</u>	<u>-</u>
Total governmental activities	<u>\$15,707,818</u>	<u>\$ 297,144</u>	<u>\$ 579,683</u>	<u>\$15,425,279</u>	<u>\$596,397</u>

Annual debt service requirements to maturity on the above governmental bond and loan obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 619,392	\$ 568,802	\$ 1,188,194
2010	576,436	550,810	1,127,246
2011	566,742	533,403	1,100,145
2012	567,063	515,821	1,082,884
2013	613,795	510,131	1,123,926
2014-2018	3,175,000	2,165,632	5,340,632
2019-2023	3,040,000	1,525,902	4,565,902
2024-2028	2,630,000	950,975	3,580,975
2029-2033	2,565,000	422,682	2,987,682
2034	<u>505,000</u>	<u>20,200</u>	<u>525,200</u>
Total	<u>\$14,858,428</u>	<u>\$ 7,764,358</u>	<u>\$22,622,786</u>

Mendon Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

General obligation bonds consist of:

\$3,035,000 2005 Refunding Bonds due in annual installments of \$160,000 to \$190,000 through May 1, 2021; interest at 2.00% to 4.30%.	\$ 2,295,000
\$13,000,000 School Building and Site Bonds due in annual installments of \$350,000 to \$500,000, through May 1, 2023; interest at 2.75% to 4.25%	6,500,000
\$5,955,000 2007 Refunding Bonds due in annual installments of \$20,000 to \$530,000 through May 1, 2034; interest at 4.0% to 4.25%	5,955,000
\$110,387 Durant Non-Plaintiff Serial Bonds due in annual installments of \$6,143 to \$38,795 through May 15, 2013; interest at 4.70%.	<u>65,179</u>
Subtotal bonded debt	14,815,179
Less: deferred amount on bond refunding	(392,291)
Less: discount on bond refunding	<u>(35,555)</u>
Total bonded debt	<u>\$14,387,333</u>

Notes payable consist of:

Energy Conservation Note payable to bank, annual payments of \$43,000 to \$45,000, through November 30, 2008; interest at 4.5%	\$ 43,249
Total notes payable	<u>\$ 43,249</u>

Durant Non-Plaintiff Bond -- Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$7,752 to \$52,082 associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

School Bond Loan – The school bond loan payable of \$942,008 represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranged from an annual 4.38% to 4.82% from July 1, 2007 to June 30, 2008. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below seven mills. The District is required to levy seven mills and repay to the State any excess of the amount levied over the bonded debt service requirement. Due to the variability of the factors that affect the timing of repayment, including the future amount of State-Equalized values of property in the District, no provision for repayment of the note has been included in the above annual debt service requirements.

Mendon Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$5,500,000 of bonds outstanding are considered defeased.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.30% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007 and 16.72% from October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The School District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$542,000, \$562,000 and \$519,000, respectively.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Post-Employment Benefits – Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

Mendon Community Schools
Notes to Financial Statements

Note 10 – Capital Projects Funds

The 2005 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of Section 1351a of the revised School Code. Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2005 Capital Project Fund. The project for which the 2005 Capital Project Bonds were issued was considered complete on August 14, 2006 and the cumulative expenditures recognized for the construction project was \$12,627,807.

Note 11 – Risk Management

The School District is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. The District participates in a distinct pool of educational institutions with the State of Michigan for self-insuring workers' disability compensation and property and casualty. The pool is considered a public-entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other needs including health insurance.

Note 12 – Federal and State Grants

The District has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 13 - Subsequent Events

The District has approved borrowing \$1,500,000 for the fiscal year 2009 to replace the note payable as described in Note 7.

Required Supplemental Information

Mendon Community Schools
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
Local sources	\$ 915,357	\$ 913,049	\$ 913,045
State sources	4,646,500	4,617,282	4,645,823
Federal sources	155,025	178,332	162,980
Interdistrict and other	<u>57,247</u>	<u>74,747</u>	<u>96,869</u>
Total revenues	<u>5,774,129</u>	<u>5,783,410</u>	<u>5,818,717</u>
Expenditures:			
Basic programs	2,570,269	2,742,722	2,801,123
Added needs	758,750	732,904	727,247
Support services:			
Pupil services	112,372	124,174	108,993
Instructional staff services	148,929	181,320	162,780
General administrative services	203,589	204,733	212,048
School administrative services	303,090	299,172	316,211
Business services	153,510	194,142	263,992
Operations and maintenance	702,206	737,641	753,739
Pupil transportation	278,884	300,802	304,797
Central services	113,165	124,099	124,787
Capital outlay	3,500	2,400	2,390
Debt service	<u>58,142</u>	<u>58,066</u>	<u>58,067</u>
Total expenditures	<u>5,406,406</u>	<u>5,702,175</u>	<u>5,836,174</u>
Revenues Over (Under) Expenditures	367,723	81,235	(17,457)
Other Financing Sources (Uses):			
Transfers out	<u>(227,460)</u>	<u>(227,460)</u>	<u>(226,979)</u>
Net Changes in Fund Balances	<u>\$ 140,263</u>	<u>\$ (146,225)</u>	<u>(244,436)</u>
Fund Balances - Beginning of Year			<u>305,669</u>
Fund Balances - End of Year			<u>\$ 61,233</u>

Other Supplemental Information

Mendon Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue Funds</u>		<u>2005</u>	
		<u>Food</u>	<u>Capital</u>	
	<u>Athletics</u>	<u>Services</u>	<u>Project Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 1,057	\$ 351	\$ 496	\$ 1,904
Accounts receivable	-	1,039	-	1,039
Inventories	-	17,364	-	17,364
Total assets	<u>\$ 1,057</u>	<u>\$ 18,754</u>	<u>\$ 496</u>	<u>\$ 20,307</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	-	2,580	-	2,580
Deferred revenue	-	16,174	-	16,174
Total liabilities	-	18,754	-	18,754
Fund Balances:				
Reserved for construction	-	-	496	496
Reserved for inventory	-	1,190	-	1,190
Unreserved:undesignated	1,057	(1,190)	-	(133)
Total fund balances	<u>1,057</u>	<u>-</u>	<u>496</u>	<u>1,553</u>
Total liabilities and fund balances	<u>\$ 1,057</u>	<u>\$ 18,754</u>	<u>\$ 496</u>	<u>\$ 20,307</u>

Mendon Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>2005</u>	
		<u>Food</u>	<u>Capital</u>	
	<u>Athletics</u>	<u>Services</u>	<u>Project Fund</u>	<u>Total</u>
Revenues:				
Local sources	\$ 50,024	\$ 138,638	\$ 641	\$ 189,303
State sources	-	14,965	-	14,965
Federal sources	-	116,073	-	116,073
Total revenues	<u>50,024</u>	<u>269,676</u>	<u>641</u>	<u>320,341</u>
Expenditures:				
Athletic activities	278,900	-	-	278,900
Food service activities	-	269,671	-	269,671
Total expenditures	<u>278,900</u>	<u>269,671</u>	<u>-</u>	<u>548,571</u>
Revenues Over (Under) Expenditures	<u>(228,876)</u>	<u>5</u>	<u>641</u>	<u>(228,230)</u>
Other Financing Sources (Uses):				
Operating transfers in	226,979	-	-	226,979
Capital outlay	-	-	99,233	99,233
Total other financing sources (uses)	<u>226,979</u>	<u>-</u>	<u>99,233</u>	<u>127,746</u>
Net Changes in Fund Balances	<u>(1,897)</u>	<u>5</u>	<u>(98,592)</u>	<u>(100,484)</u>
Fund Balances - Beginning of Year	<u>2,954</u>	<u>(5)</u>	<u>99,088</u>	<u>102,037</u>
Fund Balances - End of Year	<u>\$ 1,057</u>	<u>\$ -</u>	<u>\$ 496</u>	<u>\$ 1,553</u>

Mendon Community Schools
Schedule of Bonded Indebtedness
June 30, 2008

2004 Building & Site Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	
	\$ 13,000,000	2.750%	05/01/09	\$ 237,781	\$ 375,000	\$ 375,000
		3.000%	05/01/10	227,469	375,000	375,000
		3.000%	05/01/11	216,218	375,000	375,000
		3.150%	04/30/12	204,969	375,000	375,000
		3.250%	05/01/13	193,156	375,000	375,000
		3.500%	05/01/14	180,969	375,000	375,000
		3.500%	05/01/15	167,844	425,000	425,000
		3.625%	04/30/16	152,969	450,000	450,000
		3.750%	05/01/17	136,656	475,000	475,000
		4.000%	05/01/18	118,844	475,000	475,000
		4.000%	05/01/19	99,844	475,000	475,000
		4.000%	04/30/20	80,844	475,000	475,000
		4.125%	05/01/21	61,844	475,000	475,000
		4.200%	05/01/22	42,250	500,000	500,000
		4.250%	05/01/23	21,250	500,000	500,000
						<u>\$ 6,500,000</u>

2004 Refunding Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	
	\$3,035,000	2.750%	05/01/09	\$ 84,713	\$ 195,000	\$ 195,000
		3.000%	05/01/10	79,350	195,000	195,000
		3.250%	05/01/11	73,500	185,000	185,000
		3.500%	05/01/12	67,488	185,000	185,000
		3.500%	05/01/13	61,013	180,000	180,000
		3.630%	05/01/14	54,712	180,000	180,000
		3.750%	05/01/15	48,188	175,000	175,000
		4.000%	05/01/16	41,625	175,000	175,000
		4.000%	05/01/17	34,625	170,000	170,000
		4.100%	05/01/18	27,825	170,000	170,000
		4.300%	05/01/19	20,855	165,000	165,000
		4.300%	05/01/20	13,760	160,000	160,000
		4.300%	05/01/21	6,880	160,000	160,000
						<u>\$ 2,295,000</u>

Mendon Community Schools
Schedule of Bonded Indebtedness (Continued)
June 30, 2008

2007 Refunding Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year	Fiscal Year	Fiscal Year	Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	Principal Requirements	
	\$5,955,000	4.000%	05/01/09	\$ 242,675	\$ -	\$ -	\$ -
		4.000%	05/01/10	242,675	-	-	-
		4.000%	05/01/11	242,675	-	-	-
		4.000%	05/01/12	242,675	-	-	-
		4.000%	05/01/13	242,675	20,000	20,000	20,000
		4.000%	05/01/14	241,875	20,000	20,000	20,000
		4.000%	05/01/15	241,075	20,000	20,000	20,000
		4.000%	05/01/16	240,275	20,000	20,000	20,000
		4.000%	05/01/17	239,475	20,000	20,000	20,000
		4.000%	05/01/18	238,675	25,000	25,000	25,000
		4.000%	05/01/19	237,675	25,000	25,000	25,000
		4.000%	05/01/20	236,675	25,000	25,000	25,000
		4.000%	05/01/21	235,675	25,000	25,000	25,000
		4.000%	05/01/22	234,675	25,000	25,000	25,000
		4.000%	05/01/23	233,675	30,000	30,000	30,000
		4.000%	05/01/24	232,475	530,000	530,000	530,000
		4.000%	05/01/25	211,275	530,000	530,000	530,000
		4.000%	05/01/26	190,075	525,000	525,000	525,000
		4.000%	05/01/27	169,075	525,000	525,000	525,000
		4.000%	05/01/28	148,075	520,000	520,000	520,000
		4.125%	05/01/29	127,275	520,000	520,000	520,000
		4.125%	05/01/30	105,825	515,000	515,000	515,000
		4.125%	05/01/31	84,581	515,000	515,000	515,000
		4.250%	05/01/32	63,338	510,000	510,000	510,000
		4.250%	05/01/33	41,663	505,000	505,000	505,000
		4.000%	05/01/34	20,200	505,000	505,000	505,000
							<u>\$ 5,955,000</u>

Durant Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year	Fiscal Year	Fiscal Year	Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	Principal Requirements	
	\$ 110,387	4.700%	05/15/09	\$ 1,608	\$ 6,143	\$ 6,143	\$ 6,143
		4.700%	05/15/10	1,316	6,436	6,436	6,436
		4.700%	05/15/11	1,010	6,742	6,742	6,742
		4.700%	05/14/12	689	7,063	7,063	7,063
		4.700%	05/15/13	13,287	38,795	38,795	38,795
							<u>\$ 65,179</u>



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Education
Mendon Community Schools
Mendon, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mendon Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2008-1 in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting.

Board of Education
Mendon Community Schools
Mendon, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mendon Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, others within the entity and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Willis & Jurasek, P.C.
Certified Public Accountants

October 15, 2008



To Board of Directors
Mendon Community Schools
Mendon, Michigan

Schedule of Findings and Responses

Finding 2008-1

Currently, the business department prepares the interim internal financial statements that allows for management and oversight of the District, but the District relies on assistance from us in preparing the yearend financial statements and footnotes. The annual financial statements for the year ended June 30, 2008, required no audit adjustments. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the yearend financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



October 15, 2008

Board of Education
Mendon Community Schools
Mendon, Michigan

We have audited the financial statements of Mendon Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

WILLIS & JURASEK, P.C.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- An asset appraisal was done for the year ended June 30, 2006, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.
- Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$53,000.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. Management has approved all adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.